HOUSING MARKET OUTLOOK
Kitchener and Guelph CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

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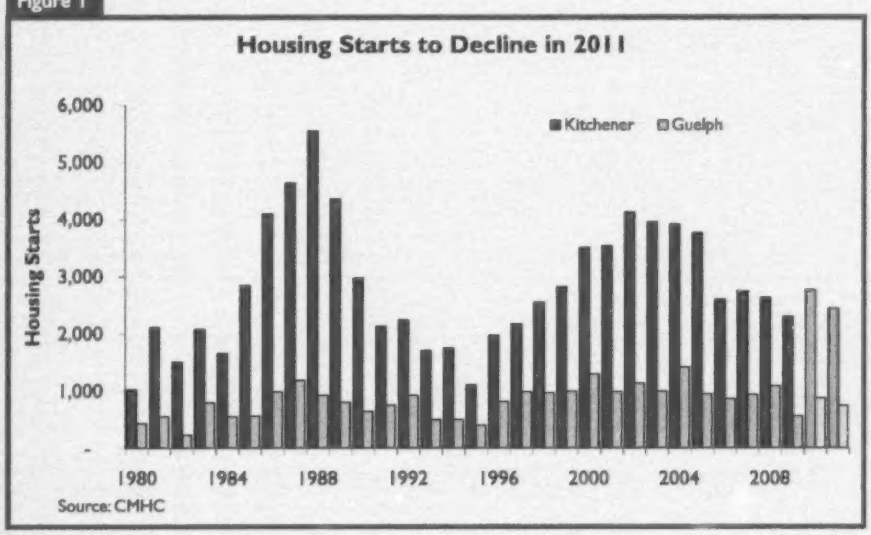
Market at a Glance

- Housing markets in the Kitchener-Waterloo-Cambridge and Guelph CMAs will stabilize in 2011. Sales in the existing home market bottomed out in the third quarter of 2010 and will pick up throughout 2011.
- New listings will remain high and the market will be balanced through most of 2011.
- On average, starts will be lower in 2011 than they were in 2010 but similar to resale activity, will gain strength later in 2011.
- Low interest rates, population growth and a slightly better job market outlook will support improving housing demand through 2011.

Figure 1



[1] The forecasts included in this document are based on information available as of October 8, 2010.

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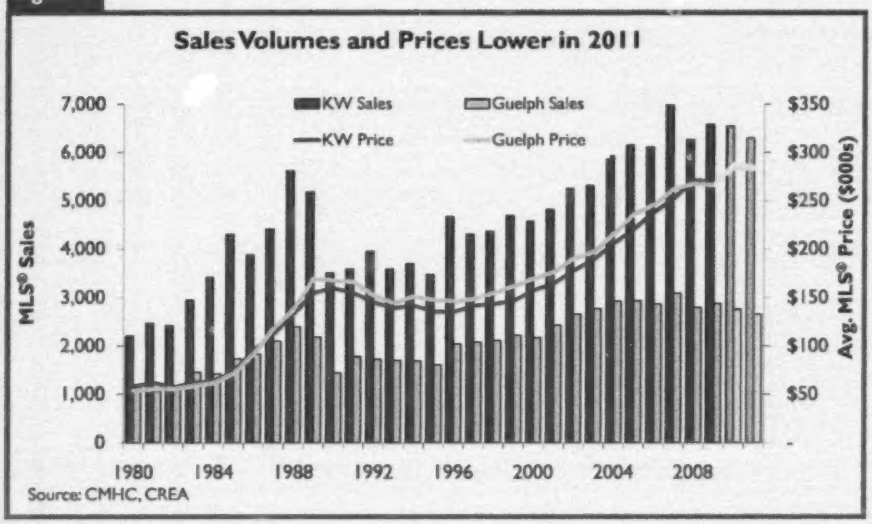
Figure 2



Resale Home Market

Resale volumes will slip after strong 2010

The low level of sales recorded in the last half of 2010 will continue into early 2011, but as the economy continues to improve, sales will pick up. Sales were down in late 2010 because homebuyers bought already in late 2009 and early 2010 to avoid the anticipated increase in mortgage carrying costs due to higher mortgage rates and home prices. Both first-time buyers and move-up buyers brought forward their home purchases, thus depleting the pool of potential buyers. This bring-forward effect will diminish in the fourth quarter of 2010 and end in early 2011, and as the economy continues to improve, there will be a gradual pickup in demand. Low mortgage rates, improved employment prospects and increased migration will combine to bring buyers back into the market. With mortgage rates flat and only modest increases in home prices, affordability will continue to support housing demand through 2011.

Although sales will be gradually picking up throughout 2011, on average, sales of existing homes through both the Kitchener-Waterloo Real Estate Board and the Guelph and District REB will decrease about four per cent in 2011 from 2010.

Listings will decline

Although the supply of resale homes will begin to trend higher later in 2011, overall, new listings will be lower in 2011, but remain at very strong levels. With more balanced resale market conditions and less upward pressure on prices, homeowners are seeing fewer advantages for listing their homes.

Home prices will flatten

For most of 2011, the resale market will be balanced, but may favour sellers by the end of the year. A balanced resale market implies little price growth. Prices have come off the highs recorded in the first half of 2010. They will begin to increase from the lower level recorded in the third quarter of 2010 and continue this slow ascension through 2011. The long-term trend in prices is higher. However, with more balanced market conditions, buyers are more cautious and there is less likelihood of bidding wars.

Figure 3

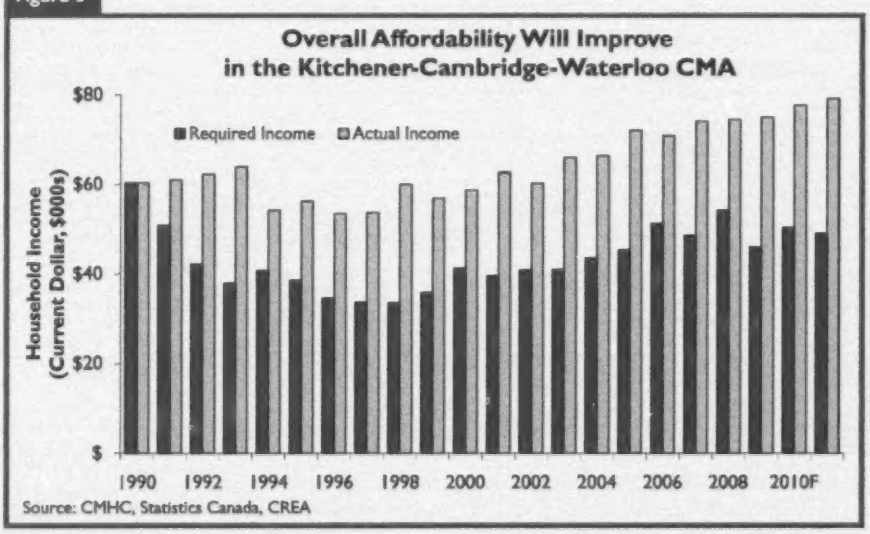
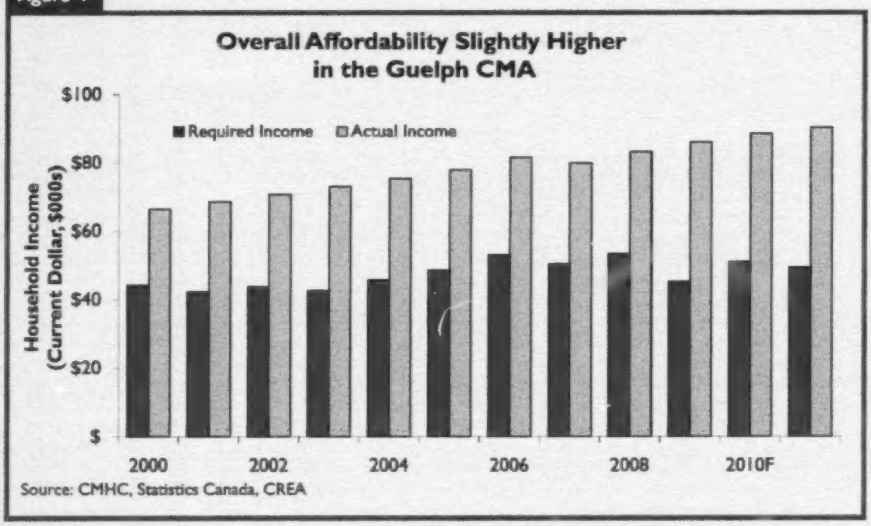


Figure 4



New Home Market

Housing starts decline

Housing starts in the Kitchener-Cambridge-Waterloo (subsequently referred to as Kitchener) and Guelph Census Metropolitan Areas (CMAs) will decline in the fourth quarter of 2010 and then increase gradually throughout 2011. As in the resale home market, demand for new homes slowed after sales were brought forward into the latter part of 2009 and the first half of 2010. Higher new home prices, more choice in the resale market and slightly lower demand will result in lower starts in 2011. Over the next few years, with an improved economy and stronger migration, starts will trend higher and move more in line with population growth and household formation.

In the Kitchener and Guelph areas, demand for single-detached homes will pick up in 2011 from the low level reached in the last half of 2010. However, on an annual basis, single-detached housing starts will decline in 2011 and remain well below the average since the middle of the last decade. Single-detached starts, as a share of total starts, are declining. Demand for higher-density ownership housing types will continue to grow strongly as mortgage carrying costs increase for the relatively more expensive detached homes. Land availability and government policies will also play a large part in the location and type of housing built. In Kitchener, the number of registered lots for detached homes fell to the lowest level in more than five years. This will limit future construction. As in the resale market, some homebuyers brought their new home purchases forward to avoid higher mortgage rates and the increased costs associated with the introduction of the HST. As a result, demand declined in the last half of 2010 and this will result in lower starts early in 2011. Throughout the ups and downs in the new home market, inventories of new homes have remained at decade-low levels and any increase in demand in 2011 must result in new construction, both to meet the demand and to replenish the low inventories.

Demand for more expensive homes and higher construction costs will push new home prices in both CMAs slightly higher in 2011. Although the average price in Kitchener declined somewhat during the economic downturn, the price of absorbed of single-detached homes has already moved beyond the previous high. Both the price decline and recovery were in part due to changes in the mix of homes sold. In 2010 the sale of more expensive homes pulled up the average price compared to 2009 when more modest homes were popular. The New Home Price Index (NHPI), which measures the change in the price of constant quality homes, is expected to increase by one per cent in 2011.

Although their share of total starts will increase, construction will also decline for semi-detached homes, townhouses and apartments in 2011. Apartment starts will fall in 2011 in both CMAs from above-average levels of 2010. In Kitchener, rental apartment starts will decline, but condominium apartment starts will increase. Construction of other low-rise housing types will remain near 2010 levels and are in line with the goal to direct a greater share of development to built-up areas.

Local Economy

A slow recovery

Slower growth in the global economy has prompted a downward revision to economic growth in Ontario. Ontario GDP growth is expected to moderate in the range of 1.5 to 2.5 per cent in the next several quarters before strengthening later in 2011. The high Canadian dollar and cautious US spending will temper the export sector.

Kitchener CMA business bankruptcies were down 18 per cent in the first half of 2010, while consumer bankruptcies were down 29 per cent from the same period in 2009.

An improving labour market

After strong employment growth in 2010, employment in Kitchener is expected to remain buoyant in 2011. Guelph employment is also forecast to increase. In both CMAs, by the middle of 2010, total employment had surpassed the level recorded before the most recent economic downturn. With labour force growth expected to be slightly lower than employment growth, the unemployment rate will decline in both CMAs in 2011. Although unemployment will remain above the historical average, wage growth in both CMAs is expected to be near two per cent in 2011. Unemployment among people under 25 will remain high, limiting both rental and first-time buyer housing demand.

In Kitchener, employment in both the goods-producing and services sectors has increased, but in Guelph, the goods-producing sector continued to struggle. Government infrastructure spending, and several non-residential and residential projects, will support employment in the construction sector in both CMAs in 2011. However, the construction sector's contribution to employment growth will slow next year. Stability in manufacturing employment sectors, a high number of construction jobs and, of course, the high-tech sector, suggests the Kitchener-Guelph area will remain an engine of growth in Ontario.

Migration supports population growth

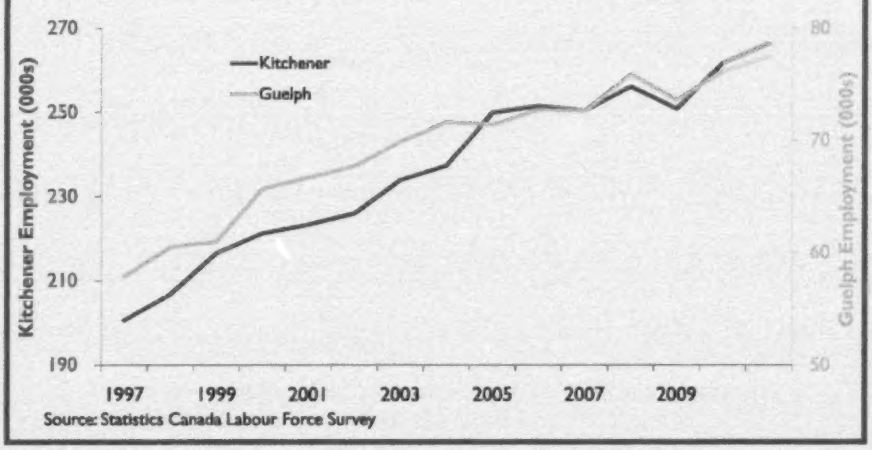
Population growth in the Kitchener and Guelph CMAs has been driven by both migration and natural increase. Net migration into the Kitchener CMA is expected to reach 3,600 persons in 2011 and 725 into the Guelph CMA. International migration has been the driving force behind migration to the area due to the diverse economy and high employment rates. A global economic recovery will cause uncertainty to diminish and will support more international travel and immigration into Canada. Immigration to Ontario in the second quarter of 2010 was more than 20 per cent higher than it had been a year ago and many of these immigrants will make their way to the Kitchener-Guelph area. While inter-provincial migration, especially to Western Canada, has slowed population growth, over the last several years, the house price differential between the Toronto and the Kitchener-Guelph area has been one of the main factors driving intra-provincial migration.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Figure 5

Some Employment Growth in 2011



Source: Statistics Canada Labour Force Survey

Forecast Summary
Kitchener-Cambridge-Waterloo CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	7,031	6,269	6,580	6,540	-0.6	6,300	-3.7
MLS® New Listings	10,164	10,521	10,387	11,000	5.9	10,500	-4.5
MLS® Average Price ($)	252,429	271,222	269,552	284,000	5.4	283,000	-0.4
New Home Market							
Starts:							
Single-Detached	1,159	1,446	1,161	1,220	5.1	1,050	-13.9
Multiples	1,581	1,188	1,137	1,540	35.4	1,400	-9.1
Semi-Detached	234	82	62	110	77.4	100	-9.1
Row/Townhouse	594	569	565	500	-11.5	500	0.0
Apartments	753	537	510	930	82.4	800	-14.0
Starts - Total	2,740	2,634	2,298	2,760	20.1	2,450	-11.2
Average Price ($):							
Single-Detached	345,819	352,644	345,289	375,000	8.6	378,000	0.8
New Housing Price Index (% chg.)	1.5	2.4	0.6	1.2	-	1.0	-
Rental Market							
October Vacancy Rate (%)	2.7	1.8	3.3	2.9	-0.4	2.7	-0.2
Two-bedroom Average Rent (October) ($)	829	845	856	870	-	890	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	250,300	256,100	250,800	261,800	4.4	266,500	1.8
Employment Growth (%)	-0.4	2.3	-2.1	4.4	-	1.8	-
Unemployment rate (%)	5.5	6.0	9.5	8.1	-	7.2	-
Net Migration	2,994	3,802	3,558	3,500	-1.6	3,600	2.9

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	3,088	2,794	2,878	2,750	-4.4	2,650	-3.6
MLS® New Listings	4,704	4,830	4,456	4,560	2.3	4,420	-3.1
MLS® Average Price ($)	262,186	267,329	265,799	288,000	8.4	285,000	-1.0
New Home Market							
Starts:							
Single-Detached	575	425	299	390	30.4	325	-16.7
Multiples	366	662	268	495	84.7	425	-14.1
Semi-Detached	58	44	74	40	-45.9	50	25.0
Row/Townhouse	274	160	124	330	166.1	300	-9.1
Apartments	34	458	70	125	78.6	75	-40.0
Starts - Total	941	1,087	567	885	56.1	750	-15.3
Average Price ($):							
Single-Detached	360,882	371,957	367,011	377,000	2.7	379,000	0.5
New Housing Price Index (% chg.) (Ont.)	2.6	3.5	0.1	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	1.9	2.3	4.1	3.9	-0.2	3.6	-0.3
Two-bedroom Average Rent (October) ($)	848	869	874	887	-	905	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	72,600	75,900	73,800	76,200	3.3	77,500	1.7
Employment Growth (%)	-0.1	4.5	-2.8	3.3	-	1.7	-
Unemployment rate (%)	5.7	5.5	8.2	8.2	-	7.7	-
Net Migration	372	815	708	700	-1.1	725	3.6

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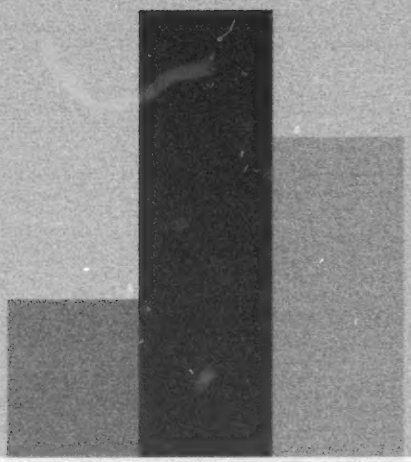

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